

## Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.



MAR 8 - 1963

CURRENT SERIAL RECORDS

INDIVIDUAL INCENTIVE  
PRODS RED CHINA TO  
CHANGE COMMUNE SYSTEM



# FOREIGN AGRICULTURE

ERS-FOREIGN-40  
December 1962

By David H. Spaeth  
Regional Analysis Division

History may well record the rise and disintegration of economic control by the commune in Communist China to be a central feature of the largest experiment in social change ever attempted. These events have been well described in recent publications.<sup>1/</sup> This discussion will focus on only one aspect of these developments: the procedures, under the current organization of the rural work force in Communist China, by which the individual peasant establishes his claim against the aggregate output of the economy.

## The Individual's Claim

This abstract way of describing the nature of personal income is used since, in the absence of the private ownership of capital, the sources of income in Red China are not comparable with those in the Free World. In the United States this claim is usually recognized in the form of the paycheck, the dividend, and the interest or royalty payment. These are not present in comparable form in present-day Red China. Instead, income is paid in kind; that is, in goods as well as cash. There is a minimum of services and goods which our society, through formal and informal, public and private institutions, assures the individual. This "welfare" income in the United States is not distributed on an equalitarian basis, nor is it usually considered as personal income. Under the communist regime in Mainland China at times, there have been attempts to distribute as much as 70 percent of total income on a per capita basis as "free supply" regardless of the work performed. The much heralded commune mess hall was a part of this distribution policy. The Chinese peasant, therefore, establishes his claim to the aggregate output of goods and services in the economy first by being a commune member, and second by working for a wage in some form.

<sup>1/</sup> Jones, Philip P. "Communes and the Agricultural Crisis in Communist China". Food Research Institute Studies Vol. III, 1, Feb. 1962. pp. 3-21

MacDougall. "The Vanishing Commune". Far East Economic Review. Vol. XXXVII, 4, July 26, 1962

Meeker, Brice K. "Red China's Farm Failure". Foreign Agriculture. Vol. XXVI, 8, August 1962. FAS, USDA.

These procedures for establishing this claim are an important aspect in the functioning of the Communist Chinese economy since they are directly related to the incentive of the individual peasant to produce goods and services, and to the problem of the rational distribution of labor in a centrally planned and centrally controlled economy. Further, from examination of this facet of the economy a new pattern of social organization is suggested in the very fluid current situation.

### The Basis for the Claim

As a background for this discussion, it is necessary to describe the sources of income open to the peasant under the communists. From a legal standpoint, such sources are based on the right to hold property as defined in the economy. The income to the individual Chinese peasant is supposed to arise from "the right to own lawfully-earned income, savings, houses, and other means of subsistence".<sup>2/</sup> In addition, there is the definition of the categories of ownership as follows: "state ownership, that is, ownership by the whole people; co-operative ownership, that is, collective ownership by the masses of the working people; ownership by individual working people; and capitalist ownership". This portion of the basic law is prefaced by the words "at present" indicating, from interpretation of other communist writing, that the latter three categories are theoretically destined for extinction.<sup>3/</sup>

### The Marketing System

To date, only capitalist ownership has disappeared. The remaining three classes of ownership are now recognized under the label "three-level ownership". Associated in a general way with this three-level ownership is a division of markets into three different classifications according to the identity of the buyers and sellers (state, collective, or individual), and a division of goods into categories according to the market through which they usually move. In turn, this three-level complex of ownership and distribution has attached itself to the three-level commune-brigade-team hierarchy with respect to the coordination of production planning.

This pattern was not deliberately installed by the central regime; rather it evolved during the drive toward the ultimate Marxist principle "to each according to his need, from each according to his ability". Over the past 2 years there has been a shift in the Communist Chinese economic literature from the criticism of private ownership and trade in privately owned goods as decadent remnants of capitalist society, to the position that the rural "free" markets in which this kind of exchange takes place are "necessary to the people's communes, to the production team, and to

2/ Constitution of the People's Republic of China.

Revised translation, People's Publishing House, Foreign Languages Press, Peking, 1961. Art. 11.

3/ ibid. Art. 5

the commune member's economic livelihood".<sup>4/</sup> These markets are not free of supervision. Certain basic commodities such as wheat, rice, and soy-beans are excluded from them. To a large extent, however, the forces of supply and demand are allowed to work themselves out in the determination of price, within a specified range of what the controlling authorities consider to be the equilibrium price in the classical economic sense. Marked deviation from this estimated norm is termed "speculation" and the buyer or seller who is accused of the practice is publicly condemned. The government, on occasion, may also enter this market as a buyer.

First category market goods are those basic commodities which must be delivered directly to the state according to central plan. This category includes grain, cotton, and oilseeds. First category commodities may not be traded in the private market. In general these commodities are those considered essential to the livelihood of the individual and hence most likely to become the objects of speculation in times of severe shortage.

Second category of goods includes those produced more locally. Many of the export commodities such as tobacco and tea fall in this group. The usual market for these is realized through a contract between the collective, a large producers cooperative, and the state, executed at official prices. In this market the government acquires stocks to hold under "all people's ownership" for export and for distribution as wages in kind or sale through urban markets. The third category goods are the miscellany of consumer goods that are the output of handicraft industry, home subsidiary production, the privately owned product from "ten-side" land,<sup>5/</sup> and the product from privately tilled plots. The capitalistic ownership of home centered production facilities has merged into individual ownership. The private ownership of land and industrial productive facilities has disappeared.

### The Wage System

From this structure of ownership and markets, the peasant draws both cash income and payment in kind. Under the scheme tried during the early days of the 1958-61 "great leap forward", claim by the individual against the output of the economy was validated by virtue of simply belonging to a commune. At the height of the "leap" in 1958 the attempt was made to implement 70 percent "free supply", and the remaining 30 percent of income was paid in cash wages. By 1960, it was estimated that

4/ "Discussion of the Rural Trade Market". Ching-chi Yen Chiu (Economic Research) No. 4, Peking, April 17, 1962 (in Chinese)  
Joint Publications Research Service translation No. 14371

July 3, 1962, U. S. Dept. of Commerce.

5/ "Ten-side" land is land beside streams, roads, etc.--that is, beside "10 different kinds of places"--from which the product is retained as private property by the peasant. Theoretically it is not computed as team output for tax and distribution purposes.



income was in the form of 30 percent "free supply" and 70 percent cash.<sup>6/</sup> Now, all payments, in kind or in cash, are made strictly according to work performed. The present sources of income are wages paid for labor performed on land allocated to the production team by the brigade, and money or goods derived from direct trade in the rural markets.<sup>7/</sup>

The wage system, involving payment in both kind and cash, arises from the system of "four fixes" and "three guarantees and one reward". This is a contractual arrangement between the brigade and the production team. The production team is now the basic accounting unit where the records of costs, sales, and distribution are kept. This is typically composed of 20 to 30 families which may till 60-100 acres of land. Under the "four fixes" agreement the higher administrative units guarantee a fixed land area, a fixed number of workers, fixed numbers of draft animals, and fixed supplies of farm tools. In return, the team guarantees to supply a given quantity of labor from its laborers, to not exceed a given cost level, and to meet a fixed production goal. If the team production quota is over-fulfilled the team members are given a bonus, including increased grain rations, as a reward. If the team falls short it is fined.

The unit for measurement of work is the work point. Each team member is rated according to his capacity to perform assigned tasks, and each member is required to supply a given number of work points to the team. At the end of the year the net income of the team (in practice, that proportion of the gross product of the team set aside by the cadre for distribution as wages) is computed at official prices. The net income is divided by the total work points accumulated by the team, and the individual members are paid for their work points at the resulting rate.<sup>8/</sup>

It is apparent from this that the current wage rate for the individual depends on group performance. From this, one may expect group pressures on the individual to perform. It is also apparent that the association between individual performance and the resulting wage is even more remote than it was in pre-communist days since it is subject to group morale and bureaucratic management. This is in addition to the individual's own energy and skills plus the usual vagaries of climate, diseases and insects.

#### Valuation of Labor

The critical aspect of this association between individual effort and the wage rate is the job faced by the team cadres in assessing the worth of an individual's labor. The prime rule now in force in Mainland China with

<sup>6/</sup> "Communist China at the Crossroads" Current Scene, Vol. II, 3, Green Pagoda Press Ltd., Hong Kong, Aug. 27, 1962.

<sup>7/</sup> "Discussion of the Rural Trade Market", cited in footnote 4.

<sup>8/</sup> Peking Jen-min Jih-pao (People's Daily) Aug. 31, 1961

Translated in Survey of China Mainland Press No. 2575

Sept. 11, 1961, American Consulate General, Hong Kong. p. 20

regard to wages is the "principle of distribution according to labor".<sup>9/</sup> This leaves unresolved the matter of measuring labor, a problem that constantly plagues even western industries in setting piece-work wage rates. This is complicated in the Red Chinese scene by the fact that the association between the job and the man is involuntary.

The valuation of human labor in Communist China now proceeds along the lines of a piece-work system, plus skill ratings similar to those encountered in a military organization. The basic unit of labor is the work point. The "average" task, if performed to the satisfaction of the cadre by a skilled worker, is worth 10 points. Harder tasks, and tasks performed by more skilled or physically stronger workers are worth more. Lighter tasks, performed by less skilled or physically less strong workers are worth less. The inclusion of strength and skill in the calculations is based on the assumption that the more skilled and stronger workers will turn out better quality work. This is a crude way of trying to perform the difficult job of evaluating the qualitative aspects of a given job.<sup>10/</sup> There have been some reports of the arbitrary crediting of increased work points; that is, more total work points than assigned by the brigade, in an effort to spur individual effort. The net effect of this, of course, is to dilute the value of the work point in the final accounting.

#### Flow of Information in the Market System

Against this background the general nature can be discerned of who is telling whom to do what, with what effect, and the routes by which information about the effect is supposed to reach the central planners. The economic plan with delivery quotas, prices, and input levels is disseminated down through the Communist Party-controlled cadres. At each level the detail increases as the plan is subjected to review and adapted to local conditions. There is a group decision at each point by a committee, until the final details are worked out, within tightly defined Party targets, by the interaction among the commune members and the squad,<sup>11/</sup> team, brigade, and commune cadres. The present function of the commune cadres is almost solely that of co-ordinating plans. This would take on some of the appearance of democratic process except that the conclusions which may be reached must conform to party policy and, as stated above, the association between the job and the man is involuntary.

The general device for the allocation of labor and the other inputs to agriculture may be summarized as a system in which prices, input levels, and the production are determined in advance according to a planned

<sup>9/</sup> Survey of China Mainland Press Nos. 2725 April 26, 1962 and 2703 March 22, 1962, American Consulate General, Hong Kong.

<sup>10/</sup> Peking Jen-min Jih-bao, translated in Survey of Chinese Mainland Press No. 2703, March 22, 1962 American Consulate General, Hong Kong. p. 10

<sup>11/</sup> For comment on "squads" see, Jones, Philip P. and Poleman, Thomas T. op. cit. p.18

pattern. Then, as the work proceeds, corrective measures are applied as deviation from this pre-set pattern is sensed by the leaders. Fixed official prices are a part of this pattern. Recognizing that the price in a free market is a very important part of the total information in the market available to planners, the question is raised about the nature of the flow of information from the bottom of the economic structure to the communist planners at the top when this information is destroyed by price fixing.

With wages and prices more or less fixed, the peasant is free only to shift the quantity and, in particular, the quality of his labor. This he will do among income sources; that is, between the effort expended on land producing the team quota, and, the labor expended on "ten-side" land; between labor for the team, and, labor spent on handicrafts, home subsidiary production, and the marketing of these products. In the absence of price information, the economic information reaching the top planners is in the form of reports of shortages, verbal reports of labor dislocation, descriptions from the lower echelon cadres concerning peasant morale, and the evidence from various sources of the relationship between performance and goals. Some of this information may not arrive, may be distorted, or may arrive too late to be of use. The net result is general confusion where large administrative units are involved, as the individual peasant goes about maximizing real income within the constraints of permitted income sources. To lose price information is to lose a relatively clear, prompt, and sensitive indicator vital to accurate planning in the larger administrative units. 12/

To press this point further, the counter-part of the Communist Chinese marketing system in a western agricultural economy would be a system in which income taxes were levied in kind on a fixed per capita basis at the farm community level. There would be a system of forward contracts between community cooperatives and the government for nonbasic commodities, and the miscellany of minor consumer goods produced in the home and the garden could be sold only by direct producer-consumer exchange in supervised markets. The government would have the power to enter any market and purchase at official prices. Aside from the cumbersome side of this, the features that stamp it as oppressive are the aforementioned involuntary association of man with job, the arbitrary power of the central regime to requisition any category of goods at official prices, and the use of the people who issue the orders to fill quotas as the source of information on production. The first two of these features destroy incentive; the last leads to a distortion of statistical information that blinds the central planner.

---

12/ op. cit. Footnote 6.



### Management Problems

Recent articles in Communist Chinese economic essays and the inferences that can be drawn from reports of the disintegration of commune control indicate that the communist leadership is acutely aware of these problems. The labor theory of value is still firmly in place, but it is now accompanied by lively discussion of just how to determine the "amount of socially necessary labor" and its valuation. The impression gained from reading the reports on these discussions is that the correct wage level is the lowest rate necessary, consistent with generating enough incentive to meet planned production quotas. In other words, the wage rates are set by the reaction of the peasant. This policy turns the involuntary association of the man with the job into an instrument which can injure the manager as well as the managed. It is the problem of the team cadre to extract the necessary labor out of people they can't dismiss, and under the constraints and fixed targets of the higher administrative units. The numerous references to the necessity of giving the team cadres increased freedom from brigade control are evidence of the tensions that the problem of the evaluation and rational use of labor is creating. At present, considerable weight can be given to the hypothesis that the peasant is, for the large part, in de facto control of agricultural production decisions and the government is treading lightly in the expropriation of food.

One benefit of the recent government policy of forcing urban workers back to rural areas is the easing of the problem of collecting and distributing food for urban consumption. The introduction of urban skills and attitudes to the rural sector may have side-effects unanticipated by the communist regime.

### Looking Ahead

Looking at the present trends within the framework of the three-levels of ownership, the structure of the market, and the procedures for the determination of income, new patterns may be seen. First, the size of the organization units controlling the labor force is decreasing. The team is the accounting unit and recent statements indicate that the administrative unit for the control of physical labor is the squad of about 10 persons.<sup>13/</sup> This leads to the hypothesis that the size of the control and accounting units will stabilize at the point where physical control is sufficiently close to the locus of production, such that the controller has access to timely and accurate evidence of the effect of his directives. The absence of flexible price information is a limiting factor to this size. It is suggested that the stable point for accounting and distribution purposes could well be a production team that resembles the old extended family. The size of the control unit for physical labor would vary with the task to be performed, and hence be contingent on the nature of the crops tilled.

---

<sup>13/</sup> op. cit. footnote 11.

Second, the determination of the amount of money or goods to be distributed to the team members as wages is now apparently being controlled by consideration for "not destroying the enthusiasm of the peasants".<sup>14/</sup> In other words, there is pressure for a stable and well-defined wage system that is executed in sufficiently small control or administrative units such that the wage rates are subject to the review of the whole team and directly associated by the individual with his own labor output. From the team leader's position the distribution of work points could be a process of minimizing the complaints, subject to Communist Party approval. Since the pre-communist situation was one in which the peasant was socially bound by family ties, seldom ventured more than a few miles from home, and essentially worked on the same piece of ground each year, the present situation in many respects may resemble the days prior to collectivization of land in 1952, or even the era prior to the Sino-Japanese War in 1937.

Combining these elements, the possibility of violent civil upheaval seems small. A marked change has already occurred and the rural inhabitants could well value the security and local peace wrung out of the existing attenuated control system, over freedom with which they have had little or no experience. It should be remembered that the decisions by the peasants are conditioned by their experiences, inferences, and knowledge, not the experiences of the western observer. Also, economic restriction can be as grinding as political restriction on their scale of values. The answers to two key questions will have a large influence on the future course of events in Communist China. First, will the Communist leadership compulsively try to return to the excesses of the "leap" if they make some progress by virtue of the present partial relaxation of control? Second, will the coming fall crop be sufficient to prevent the situation from deteriorating to one in which, in the eyes of the peasant, even small freedoms are not worth the anticipated gain from assisting possibly violent political change?

---

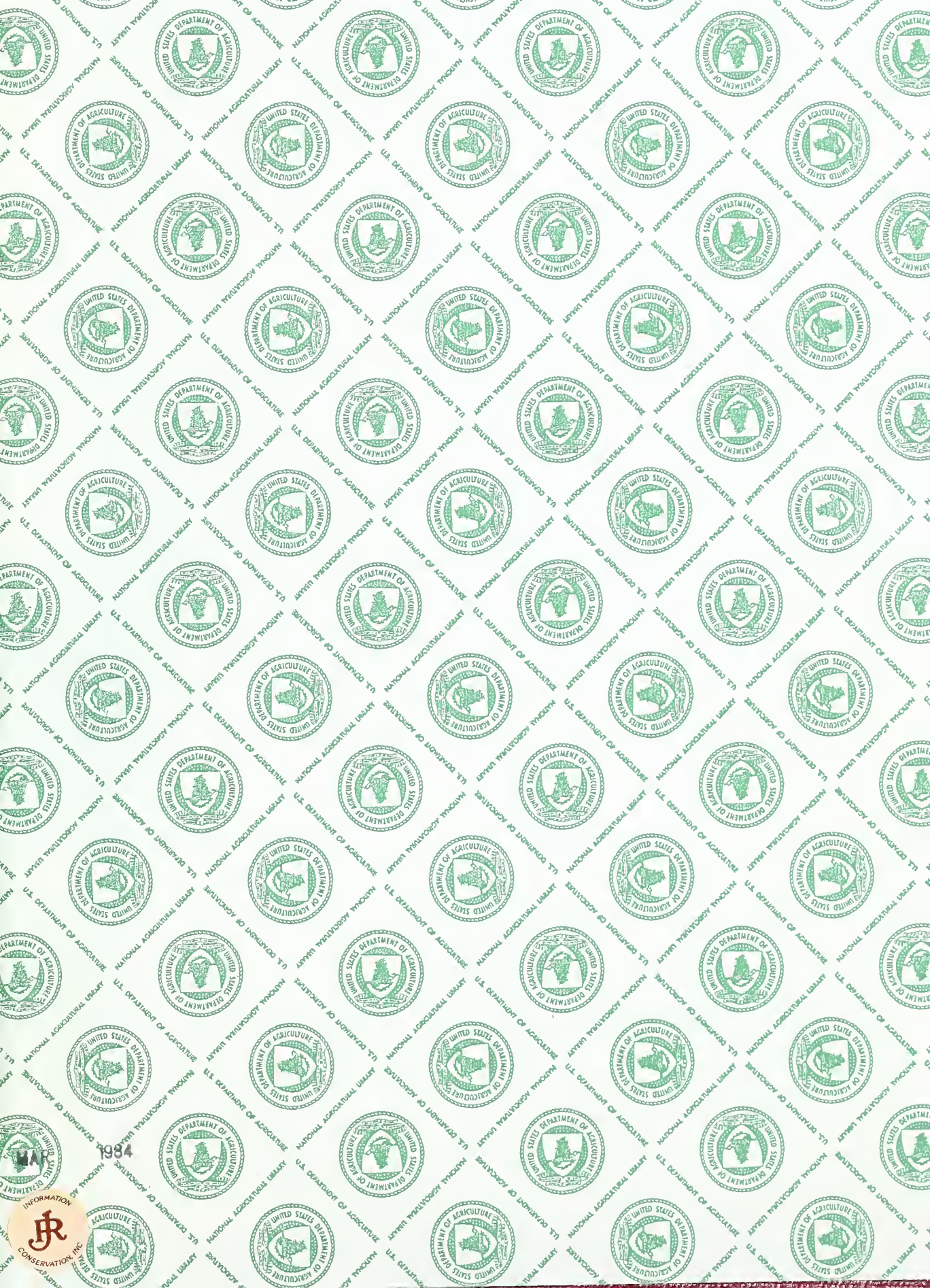
<sup>14/</sup> Peking Jen-min Jih-pao, August 31, 1961 Translated in Survey of China Mainland Press No. 2527, Sept. 11, 1961, American Consulate General, Hong Kong.











1984

INFORMATION



CONSERVATION, INC.



